

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 522 - SB 1587

March 6, 2021

SUMMARY OF BILL: Exempts from the sales and use tax prefabricated storm shelters and natural gas or propane fueled generators that engage automatically to deliver backup power to a residence during an outage, sold between the dates of July 1, 2021 and June 30, 2022. This exemption only applies to the first \$10,000 of the sale price of these products, including installation.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - Exceeds \$3,600,600/FY21-22

Decrease Local Revenue – Net Impact - Exceeds \$1,469,300/FY21-22

Assumptions:

General:

- According to the latest information from the United States Census Bureau there are 3,028,213 housing units in Tennessee, and the population of Tennessee is 2.08 percent (6,829,174 / 328,239,523) of the entire United States.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The proposed legislation will impact state and local sales tax collections in FY21-22 only.

Standby Generators:

- Based on information from HomeAdviser and HomeGuide, the average cost of a standby generator is approximately \$4,000, with a cost of \$4,500 for installation.
- Generac is the largest producer of standby generators, selling an estimated 435,725 units (\$1,742,898,000 / \$4,000) in the United States in 2019, and comprising of approximately 70 percent of the total market share; therefore, an estimated total 622,464 standby generators (435,725 / 70%) were sold in the United States in 2019, with approximately 50 percent of these being residential, or 311,232 (622,464 x 50%).
- The estimated number of standby generators sold and installed in Tennessee is 6,474 (311,232 x 2.08%).
- The taxable sales from standby generators are estimated to be \$55,029,000 [6,474 generators x (\$4,000 generator + \$4,500 installation)]. Since the combined average for

the generator and installation is estimated to be less than the \$10,000 limit (\$8,500 = \$4,500 + \$4,000), it is estimated that the full amount of taxable sales will be exempt from the sales and use tax.

- The one-time decrease in state revenue is estimated to be \$3,712,702 $[(\$55,029,000 \times 7.0\%) - (\$55,029,000 \times 7.0\% \times 3.617\%)]$.
- The one-time decrease in local revenue is estimated to be \$1,515,053 $[(\$55,029,000 \times 2.5\%) + (\$55,029,000 \times 7.0\% \times 3.617\%)]$.

Prefabricated Storm Shelters:

- Based on information from HomeAdviser, the average cost of a prefabricated storm shelter is approximately \$6,600; including the cost of installation, it is estimated the average total would exceed the \$10,000 limit.
- The number of prefabricated storm shelters sold each year is relatively few, with cities that experience the most tornadoes in the United States, such as Oklahoma City, experiencing less than 1,000 each year, barring a major disaster.
- It is assumed that at least 100 storm shelters will be purchased in Tennessee in FY21-22 year, or at least \$1,000,000 ($\$10,000 \times 100$) in taxable sales.
- The one-time decrease in state revenue is estimated to be at least \$67,468 $[(\$1,000,000 \times 7.0\%) - (\$1,000,000 \times 7.0\% \times 3.617\%)]$.
- The one-time decrease in local revenue is estimated to be at least \$27,532 $[(\$1,000,000 \times 2.5\%) + (\$1,000,000 \times 7.0\% \times 3.617\%)]$.

Totals:

- Fifty percent of tax savings, or \$2,661,378 $[(\$3,712,702 + \$1,515,053 + \$67,468 + \$27,532) \times 50\%]$ will be spent in the economy on other sales-taxable goods and services.
- The one-time increase in state revenue is estimated to be at least \$179,558 $[(\$2,661,378 \times 7.0\%) - (\$2,661,378 \times 7.0\% \times 3.617\%)]$.
- The one-time increase in local revenue is estimated to be at least \$73,272 $[(\$2,661,378 \times 2.5\%) + (\$2,661,378 \times 7.0\% \times 3.617\%)]$.
- The net one-time decrease in state revenue is estimated to be at least \$3,600,612 $(\$3,712,702 + \$67,468 - \$179,558)$.
- The net one-time decrease in local revenue is estimated to be at least \$1,469,313 $(\$1,515,053 + \$27,532 - \$73,272)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Bojan Savic, Interim Executive Director

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